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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant : Peter Martyn et al.
Serial No. : 09/404,518
Filed : September 23, 1999
Title : MATCH-OFF OF ORDER FLOW IN ELECTRONIC MARKET SYSTEM

Art Unit : 3628
Examiner : Jeffrey C. Pwu

Mail Stop Appeal Brief - Patents

Commissioner for Patents
P.O. Box 1450
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REPLY BRIEF

Pursuant to 37 C.F.R. § 41.41, Applicant responds to the Examiner's Answer as follows:

On page 11 of the Examiner's Answer, the examiner directs Appellant's attention to the following passages in May. Col. 9, lines 54-57; Col. 10, lines 5-54; Col. 30, lines 59-63; and Col. 50, lines 22-25 and lines 29-37 to teach the features of: "checking if a market participant identification associated with the order matches a market participant identification representing a quote in the system and if the market participant identification matches the market participant identification." and "determining if an incoming order has a market participant identification that matches a market participant identification representing a quote in the system."

Neither in these cited passages nor elsewhere in May are these features found in May. Rather, in cited passages from May, May discusses that aspects of the techniques disclosed in May involved a user identifying potential counterparties to a trade and to disclose his/her identity to see if the party desires to trade with the user. Appellant's claim 1 however is not directed to these teachings.

Rather, claim 1 is directed to a method of executing an order in a market system. Claim 1 concerns checking if a market participant's customer has an order in the system, which is at a best bid or best offer price in the system and matching off the customer order against the contra

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side quote of the market participant (quote at the opposite side of the market) irrespective of any other priority established for matching orders in the system. The teachings in May are directed to assisting a user to decide who to trade with given credit concerns in the derivatives market that May describes. However, May teach or suggest checking if a market participant's customer has an order in the system and matching off the customer order against the contra side quote of the market participant irrespective of priority established for matching orders in the system.

So while the examiner in the Examiner's Answer emphasizes that May allows users to know the identities of contra side parties, those teachings and that reasoning is of no import to the subject matter of the claims.

The examiner, on page 12 of the Examiner's Answer, reasons that: "As shown above, May references many modes of matching market participant identifications without regard to priority." However, while it is not exactly clear what the Examiner means by that, Appellant contends that "matching market participant identifications without regard to priority" is not what Appellant claims. Rather, claim 1 clearly recites the feature of "matching off the customer order against the ... quote of the matching market participant identification that is at an opposite side of a market irrespective of any other priority established for matching ... in the system." So as the Board can see, in claim 1 "orders" and "contra-side quotes" are matched off not "matching market participant identifications," as argued by the examiner.

The examiner also argues on page 12 of the Examiner's Answer that: "In order to be able to trade even with priority given to credit preference data, there must be some way for the system to be able to identify the counterparties." Credit preference data is not the same as a priority established for matching orders in the system, as claimed in claim 1. May recognizes this distinction, for example where May discloses:

The matching of orders is completed to ensure that credit preferences (including complex rules) are safe guarded and to ensure that the minimum number of tickets are generated. The better submitted prices will have priority, and all orders at the auction-price are filled in proportion to each other. Under these constraints, the auction mechanism 34 executes the auction, matching users and generating a settlement list. The settlement list comprises the trades resulting from the auction. (May, Col. 43, lines 54-57)

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Thus, one can infer that May considers credit preferences to be preferences and price to the prevailing priority established in the system taught by May. May also teaches that:

The switch auction will auto-match the position, taking credit preferences of the users into account so that (1) a maximum volume is executed and (2) a minimum number of tickets is generated.

The switch auction utilizes the above two rules to ensure fairness. No user will be given priority over any other user except as required to satisfy the respective credit preferences. Preferably, only two-way switches will be offered. Switches are a risk management tool, and switches generated between three counterparties introduces substantially more credit risk than a straight two-way switch.

However, even here where May discusses to give priority as required to satisfy credit preferences, it is only to users for parties to the transactions. Thus, in no sense does May teach "matching off the customer order against the ... quote of the matching market participant identification that is at an opposite side of a market irrespective of any other priority established for matching ... in the system."

In contrast, Appellant discloses that the action of matching off occurs between a market participant's customer order and the quote of that market participant. This requirement for identical market participant identifications is not found in May nor would such a requirement for identical market participant identifications have any usefulness in May.

The examiner has not made a prima facie case for anticipation since anticipation requires the presence in a single prior art disclosure of all elements of a claimed invention arranged as in the claim. (See *Connell v. Sears, Roebuck & Co.*, 220 U.S.P.Q. 193, 198 (Fed. Cir. 1983))." Moreover, presumptively, claim 1 would not be obvious over May, since the required, but unstated modification of May, would destroy the principle of operation of May. If the proposed modification or combination of the prior art would change the principle of operation of the prior art invention being modified, then the teachings of the references are not sufficient to render the claims prima facie obvious. *In re Ratti*, 270 F.2d 810, 123 USPQ 349 (CCPA 1959).

May does not have customers, but rather, according to May, the invention is directed to "an internet-protocol based anonymous trading system which enables traders to identify bids and offers which they are eligible to trade based upon a color coded methodology which gives the trader credit preference information about the potential counterparty while still maintaining the

anonymity of the potential counterparty. (May Abstract). In other words, in such a system there is no point of trading with oneself, whereas in Appellant's disclosed and claimed system the benefit of such trading is that because many of the market participants have customers and the match-off is of a quoting market participant's orders and quotes, such matching off "encourages market participants to give their book of quotes to the market so that their customers can get the best price and best size of execution while insuring market participants that the market will match-off the order flow in their book if the market participant is at the best price." (Appellant's specification page 2, line 1).

On Page 13, the examiner contends that Appellant argued that May did not teach to cancel quotes and to incorporate a request to "cancel a quote at the side of the market in which a match off order will be executed." This feature of course is directed to the so called "dual liability" problem (Appellant's specification, e.g., page 9, line 16) that can be encountered by order delivery participants, e.g., ECN's. While May teaches that a user can cancel an order, May does not teach: "calling a cancel request to cancel a quote at the side of the market in which a matched off order will be executed."

On pages 13-14 of the Examiner's Answer, the examiner argues that May teaches principal/agency quotes; and match off within a user's portfolio. So called, "position discovery" described in May does not teach either principal/agency quotes or match off within a user's portfolio. The teachings at Col. 41, lines 28-33 discuss allowing a user to search through the market to view possible trading combinations. Nowhere does May disclose that: "a trade can be matched to another outstanding position in a user's own portfolio." as the examiner contends.

At page 14 of the Examiner's Answer, the examiner also says that: "It is well known in the art that agency trades are trades that have only one agent acting on behalf of both the buyer and the seller and that principal orders are trades carried out by a broker-dealer which involves the buying and selling from its own account." Appellant defines the terms: a proprietary quote and agency quote, the terms actually used by Appellant's claims as: "For example, each a market maker can send a proprietary quote i.e., a quote that represents its own trading interest or an agency quote that represents trading interest of a sponsored entity." (Specification page 3,

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line 29). So again, while it is not exactly clear what the Examiner means here, it is not what Appellant has claimed.

On page 14, the examiner argues that "other entities order books" does not reflect the feature recited by claim 8. The examiner takes a strict construction of Claim 8. Claim 8 actually recites: "receiving an internal book of the market participant to match-off against the market participant's posted agency or proprietary quotes." Appellant's short hand expression "receive other entities' order books," or the actual feature recited "receiving an internal book of the market participant" are not described in May. Appellant contends that there being no meaningful distinction that the examiner can draw between the recited: "internal book of the market participant" and "order books," as least when measured against May. While May interfaces to client monitors 330 there is no discussion in May of order books and no discussion in May that the traders would have order books. Inherently May would not have order books, since May only describes traders that do not seem to solicit or have customers or otherwise solicit order flow. In any event, May does not teach: "receiving an internal book of the market participant to match-off against the market participant's posted agency or proprietary quotes." The examiner has cited 5 columns and 5 figures from May, but fails to specifically point to any teaching that describes an order book. Historical transactions are not an order book.

On page 15, the examiner takes issue with Appellant's discussion of May's lack of "match in time priority." Appellant stands by the argument in the Appeal Brief. May clearly discusses at Col. 36, line 63 top Col 37, line 17 that:

In the market detail interface 302, orders are individually listed in the bid window 304 or the ask window 306 in order of price, and then according to the time the orders were entered into the market. The user has the ability to select any order on the screen and hit or lift the order, assuming of course that the respective credit preferences will permit a trade. The user is provided with a function bar 308, which is substantially the same as function bar 290. Particularly, the buttons of the function bar 308 are substantially identically to those on the function bar 290 except that they only apply to a particular instrument while the buttons of the function bar 290 apply against multiple instruments. Further, a fair price indicator, spot/setting indicator (i.e., the

LIBOR for that day), and last traded price indicator are provided along the bottom of the bid window 304 and ask window 306. The last trade pricing may be replaced by volume, duration, RQ, last close price, etc.

An advantage of the market detail interface 302 is that the user is not restricted to trading only the best price or first order. At no point in the process will any orders be automatically matched against each other by the system 10. The user is in complete control of the order flow process.

Appellant contends that May apparently does not match in time priority and apparently teaches away from any automatic match deferring instead to a user to be in complete control of the order flow process.

On page 15 and 16, the examiner again takes issue with Appellant's argument regarding canceling quotes. However this has been addressed above and in Appellant's Appeal Brief.

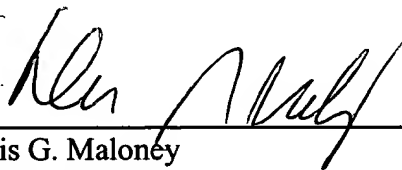
Although Appellant has directed this Reply principally to claims 1 and 8, Appellant contends that all of the claims are allowable for reasons discussed herein and/or in Appellant's Appeal Brief. Thus, Appellant submits that the final rejection should be reversed.

No oral hearing is requested.

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Respectfully submitted,

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